



King County Mental Health Chemical Abuse and Dependency Services Division 2002 Briefing Paper

STATE CUTS TO INPATIENT RATES

BACKGROUND:

King County Regional Support Network (RSN) receives combined funding for inpatient and outpatient programs based on contractual rates times the number of Medicaid enrollees in King County. The 2002 State Legislature cut a portion of the funding attributable to inpatient revenue. The impact to King RSN is a \$2.2M cut in State Fiscal Year 2003.

ISSUES/CHALLENGES:

The justification given for the rate cut was that the number of new eligibles coming into the system was so great (due to economic downturns) that, if the state Mental Health Division (MHD) continued to pay the old inpatient rates based on the new eligibles, it would overpay for inpatient services. The Legislature also stated that inpatient money had been 50% underutilized in the past.

This is not true for King RSN, yet the formula was applied to all RSNs, regardless of previous utilization. For the period in which inpatient and outpatient revenues were paid separately, King RSN received payments of approximately 12% in excess of its actual inpatient costs. Those funds were used, as originally intended, to fund hospital diversion services. Hospitalization is the most costly service available to mentally ill individuals. Diversion services cost less and are often able to mitigate a crisis before it becomes necessary to involve the involuntary commitment process, with its attendant loss of civil liberties. Investment in diversion services is cost-effective.

If inpatient spending exceeds the revenues received for inpatient services, King RSN is required under contract to pay the cost of inpatient services. Because the other component of the RSN's budget is outpatient services, outpatient services stand to be cut when insufficient revenue is received for inpatient services.

King RSN determines whether an admission is medically necessary and pre-authorizes the admission, but does not control the rates paid to hospitals. This is controlled by DSHS through the Medical Assistance Administration (MAA). Therefore, King RSN must bear the costs of inpatient services despite increasing utilization, increasing payment rates, and reduction in dollars to support the diversion programs that would help to reduce utilization.

DATA:

Because hospitals have 18 months before final costs are reconciled, King County RSN's reconciliation runs 18 months behind. The MHD's inpatient rate cut was presented to the State Legislature as a removal of unnecessary and unspent revenue. However, it is, in fact a true cut to King RSN as the chart on the next page shows. It also represents a significant loss of funds to develop and provide critical hospital diversion programs

King RSN Inpatient Payments	12 Months Total Ending 3Q 01
State MHD Estimated Payment	\$13,424,179
Initial Estimated Utilization	\$10,184,518
Final RSN Cost	\$11,834,900
Amount Kept by King RSN After Final Reconciliation (Designated for Diversion Programs)	\$ 1,589,280
2002 State Cut to King County Inpatient Rate (assuming stable utilization for 3Q 01-2Q03)	\$ 2,200,000
Immediate 2002 Reduction to Outpatient Programs (in addition to lost funding for hospital diversion programs)	(\$ 610,720)

RECOMMENDATION/LEGISLATIVE ACTION:

We urge that funding be restored to King RSN to offset the impact of these cuts. These inpatient cuts come in addition to cuts to the funding distribution formula for King RSN that results in a loss of approximately \$2M per year compounded each year over six years, as well as cuts to King County reserve funds of \$7.8M. The joint impact of these funding reductions is to devastate the continuum of mental health care in King RSN and to shift costs for mentally ill individuals to law enforcement, hospital emergency rooms, the criminal justice system, and social service providers. Lost funding has resulted in cuts in service to vulnerable individuals, and the cuts will continue to deepen. We also request that King County be allowed to maximize the federal Medicaid funding we can draw down through the state by providing local match dollars. This option results in additional service dollars in the King County community without costing state funds.